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Part III: Arms Transfers to Iran, Diversion, and Support for the
Contras

The Iran/Contra matter has been and, in some respects, still is an enigma. For three months the Board ^{has} sought to learn the facts, and still the whole matter cannot be fully explained. The general outlines of the story are clear. The story is set out here as we now know it and are able to make sense of it.

Given the President's injunction that he wanted "all the facts to come out," the Board sought to include all relevant materials. The Board tried to be faithful to the testimony and documents that came before it. This Board was not established, however, as an investigative body nor was it to determine matters of criminal culpability. Rather, the Board was established to gather the facts, to place them in their proper historical context, and to make recommendations about what corrective steps might be taken.

The limits of time, resources, and legal authority were handicaps but not unreasonable ones.

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~~TOP SECRET~~ The Board had no authority to subpoena documents, compel testimony, swear witnesses, or grant immunity.

But these limitations did not prevent the Board from assembling sufficient information to form a basis for its fundamental judgments. The Board received a vast quantity of documents and interviewed over _____ witnesses. The Board requested all affected departments and agencies to provide all documents relevant to the Board's inquiry. The Board relied upon these agencies to conduct thorough searches for all relevant materials in their possession. In addition, the Board reviewed the results and relevant portions of working files from both the CIA and Department of the Army Inspectors General reports.

Several individuals declined our request to appear before the Board: VADM John Poindexter; General Richard Secord, USAF Ret.; Lt. Col. Oliver North; Lt. Col. Robert Early; ^{AND FAWN HALL} and Mr. Albert Hakim; [^] The Board requested that the President exercise his powers as Commander-in-Chief and order VADM Poindexter and Lt. Col. North to appear before us. The President declined.*

*The correspondence to the President from the Board's Chairman and the reply, on his behalf, of White House Counsel Peter Wallison, are at Appendix F.

Despite the refusal of VADM Poindexter and Lt. Col. North to appear, the Board's access to other sources of information filled much of this gap. The FBI provided documents taken from the files of the National Security Adviser and relevant NSC staff members including messages from the PROF system** between VADM Poindexter and Lt. Col. North. The PROF messages were conversations by computer, written at the time events occurred and presumed by the writers to be protected from disclosure. In this sense, they provide a highly-reliable first-hand, contemporaneous account of events.

In the closing days of the Board's inquiry, it gained access to a considerable number of additional exchanges on PROFs between VADM Poindexter, Lt. Col. North, and Mr. McFarlane.

The Board had access to another contemporaneous record of events. The President keeps a diary in which he chronicles, in long hand, key events that occurred during the day. President Reagan reviewed his notes and, at the Board's request, culled from them the relevant notes he had made on particular dates requested by the Board. A typewritten copy of these diary entries were then reviewed by the Board. The Board was not permitted to retain a copy.

*The "PROF" system, The Professional Office System, is an interoffice mail system run through an IBM main frame computer and managed by the White House Communications Agency for the NSC. All NSC officers have personal passwords which enable them to send and receive messages to each other from terminals at their desks .

No one interviewed by the Board seemed able to provide a unified account of the events in August independent of calendars or meeting notes. In the lives of these particularly busy individuals this should not be surprising. This lack of a total and accurate recall may suggest an equally important point: when these events occurred, they were not treated by many of the participants as sufficiently momentous.

Of course, individuals can only recall what happened when they are present at a meeting or privy to a conversation. Those that are present will retain different impressions of what occurred. That certainly happened here. Many of these events occurred almost two years ago, and memories fade. There is also the chance that, for whatever reason, individuals concealed evidence or deliberately misled the Board. In any event, the Board's mandate was not to resolve conflicts among various recollections but to attempt to ascertain the essential facts as they affect conclusions about the national security process.

The Independent Counsel at various points denied the Board access to some materials in which he had established an interest. The Israelis were asked to make certain individuals available in any way that could be convenient to them. They declined to do so. They did agree to respond to written interrogatories, but had not done so as of the date of this report.

The first section of this Part III summarizes the evidence before the Board concerning the arms transfers to Iran. A more detailed narrative of this evidence is set out in Appendix B.

The second section summarizes the evidence before the Board concerning a diversion of funds from the arms sales to the support of the Contras fighting in Nicaragua.

The third section summarizes the evidence before the Board concerning the role of the NSC staff in the support of the Contras during the period that support from the U.S. government was either barred or restricted by Congress. A more detailed narrative of this evidence is set out in Appendix C.

Section A: The Arms Transfers to Iran

Two persistent concerns lay behind U.S. participation in arms transfers to Iran.

First, the U.S. government anxiously sought the release of seven U.S. citizens abducted in Beirut, Lebanon, in seven separate incidents between March 7, 1984, and June 9, 1985. [One of those abducted was William Buckley, CIA station chief in Beirut, seized on

March 16, 1984.] Available intelligence suggested that most, if not all, of the Americans were held hostage by members of Hezbollah, a fundamentalist Shiite terrorist group linked to the regime of the Ayatollah Khomeini.

Second, the U.S. government had a latent and unresolved interest in establishing ties to Iran. Few in the U.S. government doubted Iran's strategic importance or the risk of Soviet meddling in the succession crisis that might follow the death of Khomeini. For this reason, some in the U.S. government were convinced that channels needed to be opened to Iran.

Arms transfers ultimately appeared to offer a means to achieve both the release of the hostages and a strategic opening to Iran.

The formulation, development, and implementation of the Iran initiative passed through seven distinct stages. Each is analyzed in this section of the report. For purposes of the Board's mandate, the critical questions for each stage are: What was U.S. policy? How were decisions made? What action was authorized and by whom? How was this action carried out? What happened as a result?

Stage 1: The NSC Staff Seeks a New Look at U.S. Policy on Iran

The Shah of Iran was overthrown on January 16, 1979, ending an

intimate, twenty-five year relationship between the United States and Iran. Mutual hostility and tension characterized U.S. relations with the regime of the Ayatollah Khomeini, which, after some months, succeeded the Shah's rule. On November 4, 1979, radical Iranian elements seized the U.S. embassy in Tehran and held its staff hostage. The United States responded by blocking the transfer of all property of the Iranian government, imposing a trade embargo, freezing all other Iranian assets, and breaking diplomatic relations. In addition, the United States imposed an embargo on all arms shipments to Iran, including arms that had been purchased under the Shah but not yet delivered.

On January 19, 1981, many of these restrictions were lifted as part of the agreement that led to the release of the embassy staff. However, this did not extend to the embargo on arms transfers. Iraq had attacked Iran on September 22, 1980. The United States had adopted a policy of neutrality and refused to ship arms to either side. The result was a continuation of the arms embargo against Iran.

The Reagan Administration had adopted a tough line against terrorism. In particular, the United States adamantly opposed making any concessions to terrorists in exchange for the release of hostages -- whether by paying ransom, releasing prisoners, changing policies, or otherwise. Some time in July of 1982, the United

States became aware of evidence suggesting that Iran was supporting terrorist groups, including groups engaged in hostage-taking. On January 20, 1984, the Secretary of State designated Iran a sponsor of international terrorism.* Thereafter, the United States

? see footnote

The NSC Staff Initiates a Reevaluation. By early 1984, Robert McFarlane, the National Security Adviser, and members of the NSC staff, had become actively concerned about future U.S. policy toward Iran. They feared that the death of Khomeini would touch off a succession struggle which would hold important consequences for U.S. interests. They believed that the United States lacked a strategy for dealing with this prospect.

Initially, Mr. McFarlane tried to use the formal interagency policy process to address this issue. On August 31, 1984, he requested an interagency study of U.S. relations with Iran after Khomeini. On October 19, 1984, the State Department sent Mr. McFarlane the interagency response to his request. It concluded that the United States had "no influential contacts" within the Iranian government or Iranian political groups. The study suggested little that the United States could do to establish such contacts.

* WCM Footnote
actively pressured its allies not to ship arms to Iran, both because of its sponsorship of international terrorism and its continuation of the war with Iraq.

Separately, in a letter dated December 11, 1984, to Mr. McFarlane's deputy, VADM John Poindexter, the CIA professed only a limited capability to influence events in Iran over the near term.

The Reevaluation Yields No New Ideas. Howard Teicher, one of the NSC staff members involved, told the Board that the interagency effort failed to identify any new ideas for significantly expanding U.S. influence in Iran. It resulted in no change in U.S. policy. The U.S. government continued aggressively to discourage arms transfers by other nations to Iran under a program called "Operation Staunch."

Stage 2: The NSC Staff Tries a Second Time

Mr. Teicher, Donald Fortier, and perhaps other NSC staff members were unhappy with the result of the interagency effort. They placed a high priority on fashioning a strategy for acquiring influence and checking the Soviets in Iran. Graham Fuller, then the National Intelligence Officer for the Near East and South Asia, told the Board that in early 1985 the U.S. intelligence community began to believe that serious factional fighting could break out in Iran even before Khomeini died. This change in the community's assessment provided a second opportunity for a policy review.

The NSC Staff Suggests Limited Arms Sales. Mr. Teicher, and to a lesser extent Mr. Fortier, worked closely with CIA officials to prepare an update of a previous "Special National Intelligence Estimate" (or "SNIE") on Iran. Dated May 20, 1985, the update portrayed the Soviets as well positioned to take advantage of chaos inside Iran. The United States, by contrast, was unlikely to be able to directly influence events. Our European and other allies could, however, provide a valuable presence to help protect Western interests. The update concluded that the degree to which these allies "can fill a military gap for Iran will be a critical measure of the West's ability to blunt Soviet influence."

On June 10, 1985, Mr. Fortier and Mr. Teicher submitted to Mr. McFarlane a draft Presidential decision document (a National Security Decision Directive or "NSDD") drawing on the intelligence update. The draft set out immediate and long-term U.S. goals and listed specific steps to achieve them. First on the list was to "[e]ncourage Western allies and friends to help Iran meet its import requirements * * * includ[ing] provision of selected military equipment * * *."

The memorandum from Mr. Fortier and Mr. Teicher transmitting the draft NSDD to Mr. McFarlane suggested that "[b]ecause of the political and bureaucratic sensitivities," Mr. McFarlane should

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provide copies of the NSDD only to Secretary of State Shultz and Secretary of Defense Weinberger. "Whether to proceed with a restricted SIG [Senior Interagency Group], NSPG [National Security Planning Group], or other forum [for consideration of the draft] would depend on their reactions."

Mr. McFarlane circulated the draft on June 17, 1985, to Secretary Shultz, Secretary Weinberger, and Director of Central Intelligence Casey. His transmittal memorandum requested that further distribution remain limited to lessen the risk of leaks. In letters to Mr. McFarlane dated June 29, 1985, and July 12, 1985, respectively, both Secretary Shultz and Secretary Weinberger strongly objected to the suggestion that the United States should permit or encourage transfers of Western arms to Iran. By contrast, in his reply of July 18, 1985, Director Casey "strongly endorse[d]" the thrust of the draft NSDD and particularly its emphasis on the need to take "concrete and timely steps to enhance U.S. leverage." He did not specifically address the issue of arms sales.

The Suggestion Dies. Mr. Teicher told the Board that the strong objections from Secretary Shultz and Secretary Weinberger apparently killed the draft NSDD. In mid-August he was told to "stand down" on the effort. The draft was never submitted to the President for his consideration or signature.

The abandonment of the draft NSDD marked the end of efforts by Mr. McFarlane and the NSC staff to use the formal interagency policy process to obtain an explicit change in U.S. policy toward Iran. From this point on, the matter moved along a different track.

Stage 3: The Israelis Provide a Vehicle

While the NSC staff was seeking a reexamination of U.S. policy toward Iran, several staff members were growing ever more concerned about the hostage issue. On June 14, 1985, TWA flight 847 was hijacked enroute from Athens to Rome, with 135 U.S. citizens aboard. It was not until June 29 that all the hostages were released. One U.S. citizen was executed. The event dominated the news in the United States and dramatized the hostage issue. Frustration at the lack of progress in freeing the hostages in Beirut grew perceptibly within the U.S. government, especially in the face of pleas to the President for action by the families of the hostages. In the summer of 1985, a vehicle appeared that offered the prospect of progress both on the release of the hostages and a strategic opening to Iran.

Israel had a long-standing interest in a relationship with Iran and in promoting its arms export industry. Arms sales to Iran could further both objectives. It also offered a means of strengthening Iran against Israel's old adversary, Iraq. Much of Israel's military

equipment came originally from the United States, however. For both legal and political reasons, Israel felt a need for U.S. approval of, or at least acquiescence in, any arms sales to Iran. In addition, elements in Israel undoubtedly wanted the United States involved for its own sake so as to distance the United States from the Arab world and ultimately to establish Israel as the only real strategic partner of the United States in the region.

Iran badly wanted what Israel could provide. The United States had been the primary source of arms for the Shah, but U.S. shipments to Iran were now barred by the embargo. Iran desperately wanted U.S.-origin TOW and HAWK missiles,* its most critical need in countering Iraqi superiority in armor and air forces. Since Israel had these weapons in its inventory, it was an alternative source of supply. Israel was more than willing to provide these weapons to Iran, but only if the United States approved the transfer and would agree to replace the weapons.

Iranian interest in these weapons was widely known among those connected with the arms trade. These included Manucher Ghorbanifar, an Iranian businessman living in France, and Adolph Schwimmer and Yaacov Nimrodi, private Israeli arms dealers with contacts throughout the Middle East including Israel. Since September, 1984, Mr. Schwimmer had been a consultant to then-Prime Minister of Israel Shimon Peres. In a series of meetings beginning in January, 1985,

these men had discussed using arms sales to obtain the release of the U.S. citizens held hostage in Beirut and to open a strategic dialogue with Iran. Some of those meetings included Amiram Nir, since September, 1984, an adviser to Prime Minister Peres on counterterrorism. Also involved was Saudi businessman Adnan Khashoggi, a man well-connected in the Middle East and enjoying a special relationship with key Israeli officials. All these men subsequently played a role in the brokering of the arms deals that later did occur.

These men believed that the United States, Israel, and Iran, though with different interests, were susceptible to a relationship of convenience involving arms, hostages, and the opening of a channel to Iran. The catalyst that brought this relationship into being was the proffering by Israel ^{of} a channel for the United States in establishing contacts with Iran.

An Opening to Iran. On the 4th or 5th of May, 1985, Michael Ledeen, an NSC staff consultant, with the knowledge of Mr. McFarlane, went to Israel and met with ~~the~~ Prime Minister Peres. Mr. Ledeen told the Board that he asked about the state of Israeli intelligence on Iran and whether Israel would be willing to share its intelligence with the United States. Two months later, the United States received the first of three separate requests

*[Definitions to be supplied.]

regarding Iran from the Israeli government. The first two occurred in July, 1985.

(i) The July Requests. On July 3, 1985, David Kimche, the Director General of the Israeli Foreign Ministry, met at the White House with Mr. McFarlane. Mr. McFarlane told the Board that Mr. Kimche asked the position of the U.S. government toward engaging in a political discourse with Iranian officials. He recalled Mr. Kimche as saying that these Iranian officials had conveyed to Israel their interest in a discourse with the United States. This discourse was to be conducted through an intermediary (later disclosed to be Mr. Ghorbanifar) who was represented as having good connections to Iranian officials.

This was not the first time that Mr. Ghorbanifar had come to the attention of the U.S. government. The CIA knew of Mr. Ghorbanifar and had a history of contacts with him. CIA's first contact with Ghorbanifar was through a European intelligence service in January 1980. From the beginning, CIA found it "difficult to filter^t out the bravado and exagger^ation from what actually happened." Other intelligence service had smiliar experiences with Mr. Ghorbanifar. By September of that 1980, CIA decided to drop efforts at recruiting Ghorbanifar. It considered him neither reliable nor trustworthy. In addition, Theodore Shackley, a former CIA official, had met Mr. Ghorbanifar in Hamburg, West Germany, between November 19-21, 1984.

Mr. Ghorbanifar at that time suggested payment of a cash ransom for the hostages in Beirut, with himself as middleman. This proposal, contained in a memorandum prepared by Mr. Shackley dated November 22, 1984, apparently reached the State Department. It provoked no interest. A memorandum from Mr. Shackley dated June 7, 1985, containing a later suggestion by Mr. Ghorbanifar that the ransom involve items "other than money," also drew no response. At the time of his meeting with Mr. Kimche, Mr. McFarlane apparently did not know this background or even that Mr. Ghorbanifar was the intermediary Mr. Kimche had in mind. He learned this later in the month from Mr. Ledeen.

Mr. McFarlane told the Board that Mr. Kimche told him the Iranians understood that they would have to demonstrate their "bona fides" and that the Iranians believed they could influence Hezbollah to release the hostages in Beirut. But Mr. McFarlane also recalled Mr. Kimche expressing the view that ultimately the Iranians would need something to show for the dialogue, and that this would "probably" be weapons.

Mr. McFarlane testified that he informed the President of his conversation with Mr. Kimche within three or four days, after the meeting, shortly before the President entered the hospital for his cancer operation. (On July 13, 1985) Mr. McFarlane also stated that he briefed Secretary Shultz, Secretary Weinberger, and Director

Casey in separate conversations. Mr. McFarlane told the Board that the President was interested in the proposal and said that he believed we should explore it. Mr. McFarlane said this may have occurred in the first week of July, before the President entered the hospital.

On July 13, 1985, Mr. McFarlane apparently received a second request, this time brought by an emissary directly from Israeli Prime Minister Peres. The "emissary" was Mr. Schwimmer, who delivered the request to Mr. McFarlane through Mr. Ledeen. The emissary carried word of a recent meeting with Mr. Ghorbanifar and another Iranian in which the Iranians had said that others inside Iran were interested in more extensive relations with the West, and particularly, the United States. The Iranians reportedly said that his contact in Iran could achieve the release of the seven Americans held in Lebanon but in exchange sought 100 TOW missiles from Israel. This was to be part of a "larger purpose" of opening a "private dialogue" on U.S./Iranian relations. The emissary asked for a prompt response. Mr. McFarlane stated that he passed the President's decision to David Kimche by telephone.

On July 14, Mr. McFarlane cabled this proposal to Secretary Shultz, who was traveling in Asia. Mr. McFarlane recommended a tentative show of interest in a dialogue but with no commitment to the arms exchange. He asked for Secretary Shultz's guidance and

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indicated he would "abide fully" by the Secretary's decision. By return cable on the same day, Secretary Shultz agreed to "a tentative show of interest without commitment." He said this was consistent with U.S. policy of "maintaining contact with people who might eventually provide information or help in freeing hostages." Secretary Shultz advised Mr. McFarlane to "handle this probe personally" but asked that he stay in close contact.

Chief of Staff Regan told the Board that he and Mr. McFarlane met with the President on this issue in the hospital a few days after the President's cancer operation on July 13. Mr. Regan told the Board that the matter was discussed for 20 to 25 minutes, with the President asking quite a few questions. He recalled the President then saying "yes, go ahead. Open it up."

In his meeting with the Board on February 11, the President said he had no recollection of a meeting in the hospital in July with Mr. McFarlane and that he had no notes that [would] show[ed] such a meeting.

(ii) The August Request. On August 2, 1985, Mr. McFarlane again met at the White House with David Kimche. According to Mr. McFarlane, Mr. Kimche said that the Iranians had asked whether the United States would supply arms to Iran. Mr. McFarlane recalled responding that he thought not. He told the Board that Mr. Kimche then asked what the U.S. reaction would be if Israel shipped weapons

to Iran, and whether the United States would sell replacements "whether it's HAWKS or TOWS or whatever else." Mr. McFarlane recalled telling Mr. Kimche he would "get you our position."

What followed is quite murky.

Most NSC principals apparently had an opportunity to discuss this request with the President in and around the first two weeks of August. There clearly was a series of meetings with one or more of the principals in attendance. In addition, a number of the participants seem to recall a single meeting at which all the principals were present. White House records, however, show no meeting of all the NSC principals in August scheduled for the purpose of discussing this issue. *? last time was 1 or 2 weeks it might have been discussed.*

It is also unclear what exactly was under consideration at this time. No analytical paper was prepared for the August discussions and no formal written record of any of the discussions was made.

Mr. McFarlane said that Mr. Kinche made a special proposal that 100 TOWs to Iran would establish good faith and result in the release of all the hostages. Mr. McFarlane told the Board that he discussed this proposal with the President several times and, on at least one occasion, with all the full members of the NSC. Within days after the meeting, the President communicated his decision to

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Mr. McFarlane by telephone. He said the President decided that, if Israel chose to transfer arms to Iran, in modest amounts not enough ^{more} ~~not enough~~ to change the military balance, then it could buy replacements from the United States. Mr. McFarlane said that the President also indicated that the United States was interested in a political meeting with the Iranians. Mr. McFarlane said he reminded the President of this opposition expressed by Secretary Shultz and Secretary Weinburger, but that the President said he wanted to go ahead -- that he, the President, would take "all the heat for that."

Mr. McFarlane told the Board that he subsequently conveyed the President's decision to Mr. Kimche. He said that he emphasized to Mr. Kimche that the U.S. purpose was a political agenda with Iran, not an exchange of arms for hostages. Mr. McFarlane told the Board that he also conveyed this decision to the Secretary of State.

Secretary Shultz told the Board that on August 6, 1985, during one of his regularly scheduled meetings with the President, he discussed with the President a proposal for the transfer of 100 TOW missiles from Israel. The Iranians were for their part to produce the release of four or more hostages. Secretary Shultz told the Board that he opposed the arms sales at the meeting with the President. He said that Mr. McFarlane was present at this meeting. Secretary Schultz did not recall a telephone call from Mr. McFarlane regarding a decision by the President..

Secretary Weinberger recalled a meeting with the President at his residence after the President's return from the hospital. He told the Board that he argued forcefully against arms transfers to Iran, as did George Shultz. He said he thought that the President agreed that the idea should not be pursued.

Chief of Staff Regan also recalled an August meeting with the President. He told the Board that the President expressed concern with any one-for-one swap of arms for hostages and indicated "we should go slow on this but develop the contact." Mr. Regan also told the Board that in early September, Mr. McFarlane informed the President that Israel had sold arms to the Iranians and hoped to get some hostages out. Mr. Regan stated that the President was "upset" at the news and that Mr. McFarlane explained that the Israelis had "simply taken it upon themselves to do this." Mr. Ryan said that after some discussion, the President decided to "leave it alone."

*McFarlane
changes
testimony*

In his meeting with the Board on January 26, 1987, the President said that sometime in August he approved the shipment of arms by Israel to Iran. He was uncertain as to the precise date. The President also said that he approved replenishment of any arms transferred by Israel to Iran. Mr. McFarlane's testimony of January 16, 1986, before the Senate Foreign Relations Committee, on which the President said he relied heavily, takes the same position. This

portion of Mr. McFarlane's testimony was specifically highlighted on the copy of testimony given by the President to the Board..

In his meeting with the Board on February 11, the President said that he and Mr. Regan had gone over the matter a number of times and that Mr. Regan had a firm recollection that the President had not authorized the August shipment in advance. The President said he did not recall authorizing the August shipment in advance. He noted that very possibly, the transfer was brought to him as already completed. He said that subsequently there were arms shipments he authorized that may have had to do with replenishment, and that this approval for replenishment could have taken place in September. The President stated that he had been "surprised" tht the Israelis had shipped arms to Iran, and that this fact caused the President to conclude that he had not approved the transfer in advance.

In ^a subsequent letter to the Board received on February 20, 1987, the President wrote: "In trying to recall events that happened eighteen months ago I'm afraid that I let myself be influenced by others' recollections, not my own . . .

". . . I have no personal notes or records to help my recollection on this matter. The only honest answer is to state that try as I might, I cannot recall anything whatsoever about whether I approved an Israeli sale in advance or whether I approved

replenishment of Israeli stocks around August of 1985. My answer therefore and the simple truth is, 'I don't remember - period.'"

The Board tried to resolve the question of whether the President gave prior approval to Israel's transfer of arms to Iran. It could not fully do so.

We believe that an Israeli request for approval of such a transfer was discussed before the President in early August. We believe that Secretary Shultz and Secretary Weinberger expressed at times vigorous opposition to the proposal. We are convinced that the President agreed to replenish Israeli stocks and that he most likely provided this approval prior to the first shipment by Israel.

In coming to this conclusion, it is of paramount importance that the President ^{never} opposed the idea of ^{transfer} transferring arms to Iran. Indeed, four months after the August shipment, the President authorized the United States Government to undertake directly the very same operation that Israel had proposed. Even if Mr. McFarlane did not have the President's full approval, he clearly had his full support.

A Hostage Comes Out. On August 30, 1985, Israel delivered 100 TOWS to Iran. A subsequent delivery of 408 more TOWS occurred on September 14, 1985.* On September 15, 1985, Reverend Benjamin Weir was released by his captors.

Mr. Ghorbanifar told the Board that the 100 TOWS were not linked to a hostage release. They were to evidence U.S. seriousness in reestablishing relations with Iran. The next step was to be the delivery of 400 more TOWS, for which Iran was to free a hostage. The goal was to be a new relationship between the two countries, which would include a pledge by Iran of no further terrorist acts against the United States or its citizens by those under Iran's control.

Mr. McFarlane said that he received a telephone call from David Kimche informing him of Rev. Weir's impending release about a week before it occurred. Lt. Col. Oliver North, the NSC staff officer with responsibility for terrorism policy, made arrangements for receiving and debriefing Rev. Weir.

Although it appears that Israel and the United States expected the release of the remaining hostages to accompany or follow the release of Rev. Weir, this did not occur.

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Stage 4: The Initiative Appears to Founder

The United States had only a supporting role in the August and September deliveries to Iran. Israel managed the operation. The next three months saw an increasing U.S. role.

A number of important developments regarding the Iran initiative occurred between September and December, 1985. However, it proved difficult for the Board to establish precisely what happened during this period. This is in part because the period was one of great activity for the President, the NSC principals, and Mr. McFarlane. Issues that seemed to be both more important and more urgent than the Iran initiative clearly preoccupied them.

Mr. McFarlane described the foreign policy agenda for the period. The Soviet foreign minister visited Washington. Preparations for the Geneva Summit with General Secretary Gorbachev were under way; this included four Presidential speeches on arms control, human rights, regional issues, and U.S./Soviet bilateral relations. The President delivered an address to the United Nations on the occasion of its 40th Anniversary. The President met with twelve to fifteen heads of State in New York and Washington. In the middle of this hectic schedule, on October 7, 1985, the Achille Lauro was seized by four Palestinian hijackers.

*The financing of these and other arms transactions discussed in this Part III is described in detail in the charts annexed to the end of Appendix ____.

An Arms for Hostages Deal. On October 8, 1985, Lt. Col. North's calendar indicated that he met with Mr. Ledeen, Mr. Schwimmer, Mr. Nimrodi, and Mr. Ghorbanifar (in alias as Nicholas Kralis). Other meetings may have occurred. There is little evidence of what exactly went on in these meetings. All that is known for sure is that shortly after those meetings, David Kimche advanced a third proposal.

Mr. Kimche met with Mr. McFarlane and Lt. Col. North on November 9, 1985. John McMahon, the Deputy Director of Central Intelligence, told the Board that Mr. McFarlane spoke with him on November 14. Mr. McFarlane told Mr. McMahon that Mr. Kimche had indicated that the Israelis planned to provide some arms to moderates in Iran that would oppose Khomeini. Mr. McFarlane suggested that the Israelis interpreted the Presidential authorization as an open charter for further shipments as long as the shipments were modest and did not alter the military balance between Iran and Iraq. Indeed he did not recall any specific request by Israel in the late fall. He did, however, remember that early in November, Yitzhak Rabin, Israel's Defense Minister, asked whether U.S. policy would still permit Israel to buy replacements from the U.S. for arms it transferred to Iran. Mr. McFarlane confirmed that it would, although he indicated U.S. reservations about any trade of arms for hostages. They asked nothing further.

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Lt. Col. North described this plan in a message to VADM Poindexter on November 20, 1985. The Israelis were to deliver 80 HAWKS missiles to a staging area in a third country, at noon on Friday, November 22. These were to be loaded aboard three chartered aircraft, which would take off at two hour intervals for Tabriz, Iran. Once launch of the first aircraft had been confirmed by Mr. Ghorbanifar, directions would be given to release the five U.S. citizens held hostage in Beirut. No aircraft was to land in Tabriz until all the hostages had been delivered to the U.S. embassy in Beirut. Israel would deliver forty additional HAWKS at a later time. The Iranians would commit to seeing that there were no further hostage takings.

Secretary Shultz told the Board that Mr. McFarlane told him on November 18, 1985, about a plan that would produce the release of the hostages on Thursday, November 21. Secretary Shultz told the Board he told Mr. McFarlane that had he known of it earlier, he would have stopped it. He nonetheless expressed the hope to Mr. McFarlane that the hostages would be released. It is not clear what other NSC principals, if any, were told in advance about the plan.

Secretary Shultz said he told an associate on November 22 that "Bud says he's cleared with the President" on the plan. Chief of

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Staff Regan told the Board that the President was informed in advance of the Israeli HAWK shipment but was not asked to approve it. He said that Mr. McFarlane told the President early in the month on the margins of his briefings for the Geneva Summit to expect that a shipment of missiles would come from Israel through a third country to Iran, and that the hostages would come out.

In his first meeting with the Board on January 16, 1987, the President said he did not remember how the November shipment came about. The President said he objected to the shipment, and that, as a result of that objection, the shipment was returned to Israel.

In his second meeting with the Board on February 11, 1987, the President stated that both he and Mr. Regan agreed that they cannot remember any meeting or conversation in general about a HAWK shipment. The President said he did not remember anything about a call-back of the HAWKS.

Nonetheless, that the United States would sell replacement HAWKS to Israel seems to have been assumed at least by VADM Poindexter from the start. Lt. Col. North informed VADM Poindexter on November 20, 1985, that "IAW [in accordance with] your instructions I have told their [Israel's] agent that we will sell them [120 HAWKS] at a price that they can meet."

Failure. In contrast to the August TOW shipment, the

United States became directly involved in the November transfer of the HAWK missiles. Sometime on November 17 or 19, 1985, while Mr. McFarlane was in Geneva for the November summit, Mr. Rabin called Mr. McFarlane to say that a problem had arisen. Mr. McFarlane referred the matter to Lt. Col. North.

North signed a letter for Mr. McFarlane dated November 19, 1985, requesting Richard Secord, a retired U.S. Air Force general officer, to proceed to a foreign country, to arrange for the transfer of "sensitive material" being shipped from Israel. That day Mr. Secord made arrangements for transshipment of the Israeli HAWKS.

But late in the day on November 21, these arrangements began to fall apart. The foreign government denied landing clearance to the aircraft bringing the HAWKS from Israel. Lt. Col. North contacted Duane Clarridge of the CIA for assistance in obtaining the required landing clearance. When the CIA's efforts failed, Lt. Col. North asked Mr. Clarridge to find a reliable commercial carrier to substitute for the Israeli flight. Mr. Clarridge put Mr. Secord in contact with a carrier that was a CIA proprietary.*

The plan went awry again on November 22, when Mr. Schwimmer allowed the lease to expire on the three aircraft they had chartered to take the HAWKS to Tabriz. Mr. Secord was able to provide an aircraft for this leg of the journey, however. The CIA arranged for

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* [DEFINITION OF CIA PROPRIETARY TO BE SUPPLIED]

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overflight rights over [] On November 25 the aircraft left [] Delivery was three days late, however, and the aircraft carried only 18 HAWKS. Contrary to Lt. Col. North's description of this plan, the aircraft delivered the HAWKS before the release of any hostages. In fact, no hostages were ever released as a result of this delivery.

Not only were 18 of the initial shipment of HAWKS delivered, but the HAWKS did not meet Iranian military requirements. In addition, they bore Israeli markings. Mr. Ghorbanifar told the Board that this caused great unhappiness in Iran and had disastrous consequences for the emerging relationship. Ultimately the Iranians returned 17 of the HAWKS to Israel. The eighteenth had been test-fired at an Iraqi aircraft flying over Kharg Island to determine the missile's effectiveness.

When Deputy Director McMahon learned of the CIA role in the shipment some three or four days after the fact, he directed the CIA General Counsel to prepare a Covert Action Finding* providing Presidential authorization for the CIA's past support and any future support to the Iran initiative. A Finding was drafted and delivered to VADM Poindexter, but the evidence strongly suggests it was never signed by the President.

*A Covert Action Finding is [to be supplied.]

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Stage 5: The United States Sells Direct to Iran

On November 30, 1985, Mr. McFarlane resigned as National Security Adviser. VADM Poindexter was named National Security Adviser on December 4. That same day, Lt. Col. North raised with VADM Poindexter his new proposal for an arms-for-hostage deal. It involved the transfer of 3,300 Israeli TOWs and 50 Israeli HAWKS in exchange for release of all the hostages. The arms were to be delivered in five installments, spread over a 24 hour period. Each installment was to result in the release of one or two hostages, so that in the end all five U.S. citizens held in Beirut and a French hostage would be freed.* If any installment did not result in a hostage release, all deliveries would stop.

An Attempt to Break the Arms/Hostage Link. This proposal was considered at a meeting with the President on December 7 in the White House residence. The President, Secretary Shultz, Secretary Weinberger, Chief of Staff Regan, Deputy Director McMahon, Mr. McFarlane, and VADM Poindexter attended. Secretary Shultz described the meeting as the first "formal meeting" on the Iran initiative where the participants were informed in advance of the subject and had time to prepare. Mr. McFarlane said that the participants reviewed the history of the program. However, no analytical paper was circulated for

*In October, 1985, the United States obtained reliable evidence that William Buckley had died the preceding June.

discussion at the meeting; the Board was not able to acquire any minutes of this meeting. State Department notes of Secretary Shultz's contemporaneous report of a conversatin he had with VADM Poindexter on December 5 indicate that VADM Poindexter asked that Secretary Shultz's calendar not show the meeting.

Recollections of the meeting are quite diverse. In his meeting with the Board on January 26, 1987, the President said he recalled discussing a complex Iranian proposal for weapons delivered by the Israelis in installments prior to the release of the hostages. The President said that Secretary Shultz and Secretary Weinberger objected to the plan, and that this was the first time he "noted down" their approval. The President said that the discussion at the meeting produced a stalemate.

Secretary Weinberger told the Board he argued strongly against the complicated arms and hostages plan, and that he was joined in his opposition by Secretary Shultz. Mr. Regan told the Board that he supported the plan. But notes written that day by the President, State Department notes of Secretary Shultz's contemporaneous report of the meeting indicate that Mr. Regan joined Secretary Shultz and Secretary Weinberger in opposing the plan. Whatever disagreements expressed at the meeting, a consensus emerged that Mr. McFarlane

should go to London and deliver a message to the Iranians.

No written Presidential decision resulted from the meeting. Immediately after the meeting, Mr. McFarlane left for London to meet with Mr. Ghorbanifar and others to discuss the plan. There is no evidence that Mr. McFarlane was given any written instructions for the trip.

Mr. McFarlane's message at the London meeting was that, while the United States wanted the U.S. hostages released, and would be interested in better relations with Iran, it was making no offer of arms. According to a memorandum written by Lt. Col. North, Mr. Ghorbanifar refused to transmit this message to his Iranian contacts, reportedly stating that to do so would endanger the lives of the hostages. There appears to be no formal record of the London meeting.

Mr. McFarlane reported the results of his trip directly to the President at a meeting held in the Oval Office on December 10. Once again, no analytical paper was distributed in advance, no minutes were kept, and no formal Presidential decision resulted. The President, Secretary Weinberger, Director Casey, Chief of Staff Regan, and VADM Poindexter were present. Secretary Weinberger has no recollection of the meeting though Mr. McFarlane recalled that the Secretary asserted his opposition to the operation. Secretary

Shultz was in Europe, but his staff reported to him on the meeting apparantly after talking to VADM Poindexter.

Mr. McFarlane reported that an impasse in the talks developed when he refused to discuss the transfer of arms to Iran. Mr. McFarlane also told the Board he recommended against any further dealings with Mr. Ghorbanifar or these arms transfers and left government thinking the initiative had been discontinued.

The President also noted on December 9 that Mr. McFarlane had returned from London. He had met with an Iranian agent described as "a devious character." The President noted that the Iranian agent had said that Mr. McFarlane's message would kill the hostages. The President told the Board at the meeting on December 10, Mr. McFarlane expressed no confidence in the Iranian intermediary he met in London [Mr. Ghorbanifar]. The President noted that Mr. McFarlane recommeended rejecting of the latest ~~stet~~ plan.* The President said he agreed. "I had to."

Mr. Regan told the Board that at the meeting the President said the United States should try something else or abandon the whole project. Mr. Regan also said that the President noted that it would be another Christmas with hostages still in Beirut, and that he [the President] was looking powerless and inept because he was unable to do anything to get the hostages out.

* THIS APPEARS TO BE THE PLAN DISCUSSED AT THE MEETING
ON DECEMBER 7, 1985.

Director Casey prepared a memorandum of the meeting dated the same day (December 10). It states that the President "argued mildly" for letting the Israelis sell the equipment but without any commitment from the United States other than replenishment. It reports that the President was concerned that terminating the ongoing discussions could lead to early action against the hostages. Director Casey ended the memorandum by saying that as the meeting broke up: "I had the idea that the President had not entirely given up on encouraging the Israelis to carry on with the Iranians. I suspect he would be willing to run the risk and take the heat in the future if this will lead to springing the hostages."

The Arms/Hostage Link Reestablished. The President was clearly quite concerned about the hostages. Mr. McFarlane told the Board the President almost daily about the welfare of the hostages. Chief of Staff Regan is reported to have told reporters on November 14, 1986, that "the President brings up the hostages at about 90 percent of his briefings." Mr. Regan is reported to have said that each morning at the daily intelligence briefing, the President asks VADM Poindexter: "John, anything new on the hostages?"

The premise of the McFarlane December 7 trip had been to try to break the arms/hostage link. However, on December 9 Lt. Col. North submitted to VADM Poindexter a memorandum proposing direct U.S.

deliveries of arms to Iran in exchange for release of the hostages, using Mr. Secord to control Mr. Ghorbanifar and the delivery operation. The December 9 memorandum raises at least a question as to whether Lt. Col. North, who accompanied Mr. McFarlane to the London meeting, fully supported the thrust of McFarlane's instructions in his own conversations in London with Mr. Ghorbanifar and others.

During the rest of December, Lt. Col North, Mr. Ghorbanifar, Mr. Ledeen, Mr. Secord, and Mr. Nir* met variously among themselves. Again we know little of the proceedings. It is not clear who took the lead in developing the arms-for-hostage proposal that was soon presented by the Israelis. It is clear, however, that on January 2, 1986 Mr. Nir advanced a proposal just when the initiative seemed to be dying.

Mr. Nir met with VADM Poindexter in his office on January 2. Secretary Shultz recalls being told by VADM Poindexter that Mr. Nir proposed an exchange of certain Hezbollah prisoners held by Israeli-supported Lebanese Christian forces, together with 3000 Israeli TOWS, for the release of the U.S. citizens held hostage in Beirut. On January 7, 1986, this proposal was discussed with the President at a meeting, probably held in the Oval Office, attended by the Vice President, Secretary Shultz, Secretary Weinberger, Attorney General Meese, Director Casey,

Mr. Regan, and VADM Poindexter. Although the President apparently did not make a decision at this meeting, several of the participants recall leaving the meeting persuaded that he supported the proposal. Secretary Shultz told the Board that the President, the Vice-President, Mr. Casey, Mr. Regan, and VADM Poindexter "all had one opinion and I had a different one and Cap shared it."

At his meeting with the Board on January 26, 1987, the President said he approved a convoluted plan whereby Israel would free 20 Hezbollah prisoners, Israel would sell TOW missiles to Iran, the five U.S. citizens in Beirut would be freed, and the kidnappings would stop. A draft Covert Action Finding had already been signed by the President the day before the meeting on January 6, 1986. Mr. Regan told the Board that the draft Finding may have been signed in error. The President did not recall signing the January 6 draft.

The President told the Board that he had several times asked Secretary Weinberger for assurances that shipments to Iran would not alter the military balance with Iraq. He did not indicate when this occurred but stated that he received such assurances. The President also said he was warned by Secretary Shultz that the arms sales would undercut U.S. efforts to discourage arms sales by its allies to Iran.

The President did not amplify those remarks in his meeting with

the Board on February 11. [He did add, however, that no one ever discussed with him the provision of intelligence to Iran.]

On January 17, a second draft Finding was submitted to the President. It was identical to the January 6 Finding but with the addition of the words "and third parties" to the first sentence (a change that is not material for the Board's purposes).

The President told the Board that he signed the Finding on January 17. It was presented to him under cover of a memorandum from VADM Poindexter of the same date. The President said he was briefed on the contents of the memorandum but stated that he did not read it. This is reflected in VADM Poindexter's hand-written note on the memorandum. That note also indicates that the Vice President, Mr. Regan, and Donald Fortier were present for the briefing. That day, President Reagan wrote in his notebook, "I agreed to sell TOWS to Iran."

Although the draft Finding was virtually identical to that signed by the President on January 6, the cover memorandum signaled a major change in the Iran initiative. Rather than accepting the arrangement suggested by Mr. Nir, the memorandum proposed that the CIA purchase 4000 TOWs from DOD and, after receiving payment, transfer them directly to Iran. Israel would still "make the necessary arrangements" for the transaction.

This was an important change. The United States became a direct supplier of arms to Iran. The President told the Board that he understood the plan in this way. His hand written notes indicate that on January 17 he "agreed to sell TOWS to Iran." It is important to note, however, that this decision was made at a meeting at which neither Secretary Shultz, Secretary Weinberger, nor Director Casey were present. Although Secretary Weinberger and Director Casey had been present at a meeting with Attorney General Meese, General Counsel Sporkin, and VADM Poindexter the preceding day to review the draft Finding, the new U.S. role does not appear from the text of the Finding. Attorney General Meese told the Board he did not recall any discussion of the implications of this change. Secretary Weinberger told the Board he had no recollection of attending the meeting.

The President made the point to the Board that arms were not given to Iran but sold, and that the purpose was to improve the stature within Iran of particular elements seeking ties to the Iranian military. The President distinguished between selling to someone believed to be able to exert influence with respect to the hostages and dealing directly with kidnappers. The President told the Board that only the latter would "make it pay" to take hostages.

The President told the Board that he had not been advised at any

time during this period how the plan would be implemented. He said he thought that Israeli government officials would be involved. He assumed that the U.S. side would be on its guard against people such as Mr. McFarlane had met in London in early December. He indicated that Director Casey had not suggested to him at any time that the CIA assume operational responsibility for the initiative, nor was he advised of the downside risks if the NSC staff ran the operation. He recalls understanding at the time that he had a right to defer notice to Congress, and being concerned that any leaks would result in the death of those with whom the United States sought to deal in Iran.

The January 17 Finding was apparently not given or shown to key NSC principals. In particular, Secretary Shultz, Secretary Weinberger, and Chief of Staff Regan stated that they did not see the signed Finding until after the Iran initiative became public. The Finding marked, however, a major step toward increasingly direct U.S. participation in, and control over, the Iran initiative.

Stage 6: The NSC Staff Manages the Operation

In the months that followed the signing of the January 17th Finding, Lt. Col. North forwarded to VADM Poindexter a number of operational plans for achieving the release of all the hostages. Each plan involved a direct link between the release of hostages and

the sale of arms. Lt. Col. North, with the knowledge of VADM Poindexter and the support of selected individuals at CIA, directly managed a network of private individuals in carrying out these plans. None of the plans, however, achieved their common objective -- the release of the hostages.

Plans for "Operation Recovery. The plan described in the cover memorandum to the January 17 Finding called for Israel to arrange for the sale of 4000 U.S. TOW missiles to Iran. The memorandum stated that both sides had agreed that the hostages would be released "immediately" upon commencement of the operation. It provided, however, that if all the hostages were not released after the first shipment of 1000 TOWS, further transfers would cease.

At this point elements of the CIA assumed a much more direct role in the operation. On January 18, 1986, VADM Poindexter and Lt. Col. North met with Clair George, Deputy Director of Operations at CIA, Stanley Sporkin, CIA General Counsel and one of the primary authors of the January 17 Finding, the Chief of the Near East Division with the Operations Directorate at CIA. They began planning the execution of the plan. Because of an NSC request for clearance of Mr. Ghorbanifar, on January 11, 1986, the CIA had administered a polygraph test to Mr. Ghorbanifar during a visit to Washington. Although he failed the test, and despite the unsatisfactory results of the program to date, Mr. Ghorbanifar

continued to serve as intermediary. A CIA official recalls Director Casey concurring in this decision.

On January 24, Lt. Col. North sent to VADM Poindexter a lengthy memorandum containing a notional timeline for "Operation Recovery." The complex plan was to commence January 24 and conclude February 25. It called for the United States to provide intelligence data to Iran. Thereafter, Mr. Ghorbanifar was to transfer funds for the purchase of 1000 TOWS to an Israeli account at Credit Suisse Bank in Geneva, Switzerland. It provided that these funds would be transferred to an account in the same bank controlled by Mr. Secord; that \$6 million of that amount would be transferred to a CIA account in that bank; and that the CIA would then wire the \$6 million to a U.S. Department of Defense account in the United States.* The 1000 TOWS would then be transferred from the DoD to the CIA.

Mr. Secord and his associates, rather than the CIA, had the more substantial operational role. He would arrange for the shipment of the TOWS to Eliat, Israel. From there, an Israeli 707, flown by a crew provided by Mr. Secord, would deliver the TOWS to Bandar Abbas, Iran. On the return flight, the aircraft would stop in Tehran to pick up the HAWK missiles delivered in November of 1985 but later rejected by Iran. The plan anticipated that the next day (February

*The financing of this and the other transactions involved in the arms sale initiative is covered in the charts annexed to Appendix B.

9) all U.S. citizens held hostage in Beirut would be released to the U.S. Embassy there. Thereafter, 3000 more TOWS would be delivered. The plan anticipated that Khomeini would step down on February 11, 1985, the fifth anniversary of the founding of the Islamic Republic.*

Mr. Ghorbanifar's recollection of the terms of the arrangements are radically different. Mr. Ghorbanifar stated adamantly that the 1000 TOWS were to reestablish U.S. good faith after the disastrous November shipment of HAWK missiles. Mr. Ghorbanifar said there was no agreement that the U.S. hostages would be released as a result of the sale.

On February 18, the first 500 TOWS were delivered to Bandar Abbas, and the HAWK missiles were brought out. On February 24-27, Lt. Col. North, a CIA official, Mr. Secord, Mr. Nir, and Mr. Albert Hakim (a business associate of Mr. Secord) held a series of meetings in Frankfurt, Germany with Mr. Ghorbanifar and other Iranians to review the details of the operation. On February 27, the second 500 TOWS were delivered to Bandar Abbas. Although a hostage release and a later meeting between senior U.S. and Iranian officials had been agreed upon at the Frankfurt meeting, the plan fell through. No hostages were released and the meeting failed to materialize until much later.

*The Board has found no evidence that would give any credence to this assumption.

Although the cover memorandum to the January 17 Finding stated that further arms transfers would cease if all the hostages were not released after delivery of the first 1000 TOWs, the United States continued to pursue the initiative and arranged for another delivery of arms two months later.

Authorization for "Operation Rescue." Lt. Col. North appears to have kept VADM Poindexter fully advised of the progress of Operation Rescue. Director Casey also appears to have been kept informed both by Lt. Col. North and by a CIA official. Both Lt. Col. North and VADM Poindexter were in touch with Mr. McFarlane. In a message to Lt. Col. North on February 27, 1986, Mr. McFarlane noted that he had just received a note from VADM Poindexter asking whether Mr. McFarlane could undertake the senior level meeting with the Iranians and indicating that "the President is on board." Mr. Regan told the Board that the President authorized the shipment of 1,000 TOWS during one of VADM Poindexter's morning briefings to the President.

On February 28, 1986, Prime Minister Peres sent a personal note to President Reagan referring to the results of the meeting at Frankfurt. It offered Israeli assistance at the forthcoming meeting of senior officials and expressed pleasure at participating in this joint effort.

Secretary Shultz told the Board that on February 28, 1986, VADM

Poindexter informed him the hostages would be released the following week. Secretary Shultz said VADM Poindexter reported nothing about arms. VADM Poindexter said that the Iranians wanted a high-level dialogue covering issues other than hostages, and that the White House had chosen Mr. McFarlane for the mission

Preparation for the May Visit. Preparation for a meeting between Mr. McFarlane and senior Iranian officials began shortly after Lt. Col. North's return from Frankfurt on February 27. That same day, VADM Poindexter met with Director Casey, Mr. George, and another CIA official to discuss plans for the meeting. On March 5, 1986, George Cave, joined the group. He was a retired CIA officer who since retirement had served as a paid consultant to the agency. He was a Farsi speaker and an expert on Iran.

Lt. Col. North, Mr. Cave, and a CIA official met with Mr. Ghorbanifar in Paris on March 8, 1986. Lt. Col. North reported on this conversation to Mr. McFarlane on March 10. He said he told Mr. Ghorbanifar that the United States remained interested in a meeting with senior Iranian officials as long as the hostages were released during or before the meeting. He said he briefed Mr. Ghorbanifar on the Soviet threat to Iran using intelligence supplied by Mr. Robert Gates, then the CIA Deputy Director for Intelligence. Mr. Ghorbanifar responded by presenting a list of 240 different types of spare parts, in various quantities, needed by Iran for its HAWK

missile units. He also emphasized the importance of an advance meeting in Tehran to prepare for the meeting with Mr. McFarlane. This advance meeting would establish the agenda and who should participate from the Iranian side.

While further discussion occurred over the next month, it resulted in little progress. On April 3, 1986, Mr. Ghorbanifar arrived in Washington, D.C.. He met with Lt. Col. North, Mr. Allen, Mr. Cave, and another CIA official between April 3-4. In a message to Mr. McFarlane on April 7, 1986, Lt. Col. North indicated that, at the request of VADM Poindexter, he had prepared a paper for "our boss" laying out the arrangements agreed upon at the meeting.

An unsigned, undated memorandum was found in Lt. Col. North's files entitled "Release of American Hostages in Beirut."* It appears to have been prepared in early April.

In his interview on November 23, 1986, Lt. Col. North said he prepared this memorandum between April 4-7. Although in a form for transmittal by VADM Poindexter to the President, Lt. Col. North indicated that he did not believe the President had approved the memorandum.

*This memorandum also contained a reference to the diversion of funds to the Contras, discussed in Section B of this Part III.

The memorandum provided for the following sequence of events:

- On April 9, the CIA would commence procuring \$3.641 million worth of parts for HAWK missile units.
- On April 18, a private U.S. aircraft would pack up the parts and fly them to an Israeli airfield. The parts would then be transferred to an Israeli military aircraft with false markings.
- On April 19, Mr. McFarlane, Lt. Col. North, Mr. Teicher, Mr. Cave, and a CIA official would board a CIA aircraft in Frankfurt en route to Tehran.
- On April 20, they would meet with a delegation of senior Iranian officials. Seven hours later, the U.S. hostages would be released in Beirut. Fifteen hours later, the Israeli military aircraft with the HAWK missile parts would land in Bandar Abbas, Iran.

That schedule was not met. On April 16, 1986, Lt. Col. North wrote VADM Poindexter seeking approval for a meeting with Mr. Ghorbanifar in Frankfurt on April 18. In his reply of the same date, VADM Poindexter approved the trip but insisted that there be no delivery of parts until all the hostages had been freed. He

expressly ruled out half shipments before release. "It is either all or nothing." He authorized Lt. Col. North to tell Mr. Ghorbanifar: "The President is getting very annoyed at their continual stalling." On April 21, VADM Poindexter sent a message to Mr. McFarlane informing him of this position.

The Frankfurt meeting was not held. On May 6, 1986, Lt. Col. North and Mr. Cave met with Mr. Ghorbanifar in London. Mr. Ghorbanifar promised a meeting with senior Iranian officials but asked that the U.S. delegation bring all the HAWK spare parts with them. Mr. Cave recalls the Americans agreeing that one-quarter of the spare parts would accompany the delegation. Notwithstanding, Lt. Col. North informed VADM Poindexter on May 8: "I believe we have succeeded. * * * Release of hostages set for week of 19 May in sequence you have specified."

On May 22, 1986, Lt. Col. North submitted the final operating plan for the trip to VADM Poindexter. It provided that the McFarlane delegation would arrive in Tehran on May 25, 1986. The next day (but no later than May 28), the hostages would be released. One hour later, an Israeli 707 carrying the balance of the spare parts would leave Tel Aviv for Tehran.

Authorization for the May Trip. On May 3, 1986, while at the Tokyo economic summit, Secretary Shultz received word from the U.S.

Ambassador to London that Mr. Khashoggi, Mr. Ghorbanifar, and Mr. Nir had sought to interest an British businessman in the shipment of spare parts and weapons to Iran. That same day, Secretary Shultz expressed his concern about any such transaction to Mr. Regan. Secretary Shultz told the Board that Mr. Regan said he was alarmed and would talk to the President. Secretary Shultz said he talked later to VADM Poindexter and was told that "that was not our deal." He recalls being told soon thereafter by both VADM Poindexter and Directory Casey that the operation had ended and the people involved had been told to "stand down." The Tokyo Summit closed with a statement from all the heads of state strongly reaffirming their condemnation of international terrorism in all its forms.

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~~RE~~ McDaniel noted that during the national security briefing on May 12, 1986, VADM Poindexter discussed with the President the hostages and Mr. McFarlane's forthcoming trip.* The notes indicate that the President directed that the press not be told about the trip. On May 15, 1986, Mr. McDaniel's notes indicate that the President authorized Mr. McFarlane's secret mission to Iran and the Terms of Reference for that trip. Those notes indicate that the trip was discussed again with the President on May 21.

On May 17, Lt. Col. North "strongly urged" that VADM Poindexter include Secretary Shultz and Secretary Weinberger along with Director Casey in a "quite" meeting with the President and Mr.

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*MR. MCDANIEL BECAME EXECUTIVE SECRETARY OF THE NSC IN FEBRUARY, 1986. THOUGH UNINVOLVED IN BOTH THE POLICY AND IMPLEMENTATION OF THE IRAN INITIATIVE, MR. MCDANIEL ACCOMPANIED VADM POINDEXTER TO HIS MORNING BRIEFINGS TO THE PRESIDENT IN A NOTE-TAKING CAPACITY.

McFarlane to review the proposed trip. VADM Poindexter responded, "I don't want a meeting with RR, Shultz and Weinberger."

The May Trip to Tehran. Lt. Col. North noted in a message to VADM Poindexter on May 19 that CIA was providing "comms, beacons, and documentation for the party." All the other logistics had been arranged through Mr. Secord "or affiliates." Mr. McFarlane, along with Lt. Col. North, Mr. Cave, and a CIA official, left the United States on May 23. Mr. Nir had pressed to be included in the delegation. The chief of the near east division in the CIA operations directorate told the Board that this request was initially rejected, and that position was transmitted by the White House to Israeli Prime Minister Peres who appealed it. He said that ultimately, the decision was left to Mr. McFarlane, who decided to let Mr. Nir join the group. Mr. Ghorbanifar recalls that in meetings with Iranian officials, Mr. Nir was always presented as an American.

On May 25 the delegation arrived in Tehran. Without the prior knowledge to Mr. McFarlane, the aircraft carried one pallet of HAWK spare parts. The delegation was not met by any senior Iranian officials. No hostages were released. Because of this, a second plane carrying the rest of the HAWK spare parts was ordered not to come to Tehran. Two days of talks proved fruitless. The Iranians initially raised demands for additional concessions, but later

appeared to abandon them. Mr. McFarlane demanded the prior release of all hostages and the Iranians insisted on the immediate delivery of all HAWK spare parts. On 27 May, Mr. McFarlane demanded the release of the hostages by 0630 the next day. When no hostages were released, Mr. McFarlane and his party departed, but not before the pallet of HAWK spare parts had been removed from their aircraft.

In a report to VADM Poindexter on 26 May, Mr. McFarlane stated: "The incompetence of the Iranian Government to do business requires a rethinking on our part of why there have been so many frustrating failures to deliver on their part."

Mr. Ghorbanifar placed blame for the failure of the May trip squarely on the United States. Mr. Ghorbanifar said that he had proposed that he and North go to Tehran first to prepare the way. But after Mr. Ghorbanifar had made all the arrangements, Lt. Col. North advised that VADM Poindexter had disapproved the trip. The failure to hold this preparatory meeting may have resulted in substantial misunderstanding between the two sides as to just what would occur and be discussed at the meeting with Mr. McFarlane. Mr. Ghorbanifar stated that the Iranians failed to meet Mr. McFarlane's plane because it arrived three hours ahead of schedule. Mr. Ghorbanifar also claimed that the delegation did meet with a senior-level foreign policy advisor.

The Board found evidence that Lt. Col. North, Mr. Cave, Mr.

Allen, and another CIA official knew as early as mid-April that if all the HAWK spare parts were not delivered with the delegation, then only one U.S. hostage would be released. Mr. McFarlane may not have been advised of this fact. While in Tehran, he insisted upon the release of all U.S. hostages prior to more than the token delivery of HAWK spare parts. This was apparently his and VADM Poindexter's understanding of the agreed arrangements. This led Mr. McFarlane to refuse an even better Iranian offer than the one Lt. Col. North and his associates had reason to expect: two hostages immediately and the remaining two after delivery of the rest of the spare parts.

Notes made by Mr. McDaniel indicate that on May 27 the President received a report on the McFarlane trip. Those notes also indicate that Mr. McFarlane reported on his trip in person to the President on May 29. The notes indicate that the Vice President, Mr. Regan, VADM Poindexter, Mr. Teicher, and Lt. Col. North also attended. Mr. McFarlane told the Board, and the notes confirm, that he told the President that the program ought to be discontinued. It was his view that while political meetings might be considered, there should be no weapons transfers.

A Hostage Comes Out. Mr. McDaniel's notes indicate that on June 20, 1986, the President decided that no further meeting with the Iranians would be held until the release of the hostages. Early

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in July, Lt. Col. North called Charles Allen and asked him to take over the day-to-day contact with Mr. Nir. Mr. Allen told the Board that Lt. Col. North said he had "lost face" with VADM Poindexter because of his failure to obtain the release of an American hostage. Mr. Allen recalled that Mr. Nir was alarmed at losing direct contact with Lt. Col. North. Mr. Allen told the Board that as a result, Mr. Nir worked closely with Mr. Ghorbanifar to obtain the release of an American hostage.

Notes made by the NSC Executive Secretary indicate that on July 18, VADM Poindexter informed the President of the latest communications with the Iranian interlocutors. On July 21, Lt. Col. North, Mr. Cave, and Mr. Nir met with Mr. Ghorbanifar in London. They discussed the release of the hostages in exchange for the HAWK spare parts that remained undelivered from the May mission to Tehran. On July 26, Father Lawrence Jenco was released.

VADM Poindexter briefed the President on the Jenco release that same day over a secure telephone. He used a memorandum prepared by Lt. Col. North that claimed the release was "undoubtedly" a result of Mr. McFarlane's trip in May and the continuing contacts thereafter. A _____ memorandum to VADM Poindexter from Director Casey reached the same conclusion.

In a memorandum to VADM Poindexter dated July 29, 1986, Lt. Col.

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North recommended that the President approve the immediate shipment of the rest of the HAWK spare parts and a follow-up meeting with the Iranians in Europe. Notes of the NSC Executive Secretary indicate that the President approved this proposal on July 30. Additional spare parts were delivered to Tehran on August 3.

Stage 7: The Second Channel Is Opened But the Initiative Leaks

From the start, U.S. officials had stressed to Mr. Ghorbanifar that Iran must use its influence to discourage further acts of terrorism directed against the United States and its citizens. Whether as a result of those efforts or for some other reason, from June 9, 1985, until September 9, 1986, no U.S. citizen was seized in Beirut.* But on September 9, 1986, terrorists seized Frank Reed, a U.S. educator at the Lebanese International School. Two more U.S. citizens, Joseph Cicippio and Edward Tracey, were taken hostage on September 12 and October 21.

The McFarlane mission to Tehran marked the high-water work of U.S. efforts to deal with Iran through Mr. Ghorbanifar. For a year he had been at the center of the relationship. That year had been marked by great confusion, broken promises, and increasing frustration on the U.S. side. Lt. Col. North and other U.S. officials apparently blamed these problems more on Mr. Ghorbanifar than on Iran. The release of Rev. Jenco did little to mitigate their unhappiness.

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The Second Channel

Sometime in July, 1986, an Iranian living in London proposed to Albert Hakim a second Iranian channel--the relative of a powerful Iranian official. On July 25, George Cave went to London to discuss this possibility. On August 26, 1986, Mr. Secord and Mr. Hakim met with the second channel and other Iranians in London. The Iranians said they were aware of the McFarlane visit, the Israeli connection, and Mr. Ghorbanifar's role. They referred to Mr. Ghorbanifar as a "crook." Notes taken by the Mr. McDaniel indicate that the President was briefed about the second channel on September 9, 1986.

Lt. Col. North, Mr. Cave, and a CIA official met with the second channel and two other Iranians in Washington between September 19 and 21, 1986. The two sides discussed the Soviet threat, cooperation in support of the Afghan resistance, and improved relations between the United States and Iran. The bulk of the time, however, was spent discussing the "obstacle" of the hostages and Iran's urgent need (within two months) for both intelligence and weapons to be used in offensive operations against Iraq. Lt. Col. North reviewed a list of military equipment and agreed "in principle" to provide that equipment, subject to the constraints of

*This excludes two and possibly three dual-national U.S. citizens seized during this period.

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what was available within the United States or obtainable from abroad. The parties discussed the establishment of a secret eight-man U.S.-Iranian commission to work on future relations. Finally, Lt. Col. North told the Iranians that unless contact came from North, Richard Secord, or George Cave, "there is no official message from the United States." Notes by Mr. McDaniel indicate that on September 23, the President was briefed on recent discussions with the second channel.

On October 5-7, 1986, Lt. Col. North, Mr. Cave, and Mr. Secord met with the second channel in Frankfurt, Germany. They carried a Bible for the Iranians inscribed by the President on October 3. During the meeting, Lt. Col. North misrepresented his access to the President and attributed to the President things the President never said.

In presenting the Bible, Lt. Col. North related the following story to the Iranians:

"We inside our Government had an enormous debate, a very angry debate inside our government over whether or not my president should authorize me to say 'We accept the Islamic Revolution of Iran as a fact . . .'" He (the President) went off one whole weekend and prayed about what the answer should be and he came back almost a year ago with that passage I gave you that he wrote in front of the Bible I gave you. And he said to me, 'This is a promise that God gave to Abraham. Who am I to say that we should not do this?'"

In reality, the idea of the Bible and the choice of the inscription were contained in an October 2, 1986, memorandum from

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Lt. Col. North to VADM Poindexter. The Bible was to be exchanged for a Koran at the October 5-7 meeting. VADM Poindexter approved the idea and the President inscribed the Bible the next morning. The President told the Board that he did inscribe the Bible because VADM Poindexter told him this was a favorite passage with one of the people with whom the U.S. was dealing in Iran. The President said he made the inscription to show the recipient that he was "getting through."

At two points during the October 5-7 Frankfurt meetings, Lt. Col. North told two stories of private discussions with the President at Camp David. The first had the President saying that he wanted an end to the Iran/Iraq war on terms acceptable to Iran. The second had the President saying that the Gulf states had to be convinced that it was Saddam Husain of Iraq that was "causing the problem."

When pressed by the Iranians for an explicit statement of what the U.S. means by "an honorable victory" for Iran, Lt. Col. North replied: "We also recognize that Saddam Husain must go."

The President emphasized to the Board that these statements are an "absolute fiction" and that there were no meetings at Camp David as Lt. Col. North describes. In addition, Mr. McDaniel noted that on October 3, 1986, the President reaffirmed that the United States

wanted neither Iran or Iraq to win the war.

At the October 5-7 meeting, Lt. Col. North laid out a seven-step proposal for the provision of weapons and other items in exchange for Iranian influence to secure the release of all remaining U.S. hostages, the body of William Buckley, a debrief by his captors, and the release of John Pattis, a United States citizen whom the Iranians had arrested on spying charges several months earlier. The Iranians presented a six-point counter-proposal that, in part, promised the release of one hostage following receipt of additional HAWK parts and a timetable for future delivery of other items. The Iranians made clear that they could not secure the release of all the hostages. Mr. Cave recalls that the Iranians proposed exchanging 500 TOWS for the release of two hostages. He stated that the U.S. side agreed.

A second meeting was held in Frankfurt on October 26-28 at which the parties finalized the payment and delivery schedule for the TOWS. At that meeting, the parties apparently discussed a nine-point U.S. agenda with Iran. That agenda included delivery by the U.S. of the 500 TOWS, an unspecified number of HAWKS, discussion of the 17 Da'Wa prisoners held by Kuwait, additional arms including 1000 more TOWS, and military intelligence. In exchange the Iranians promised release of one and perhaps two U.S. citizens held hostage in Beirut and "further efforts to create the condition for release of other

hostages."

At a meeting between representatives of the State Department and the second channel on December 13, 1986, the Iranian said that both sides had agreed to this nine-point agenda. The Board found no evidence that Lt. Col. North had authority to agree to such an agenda. Secretary Shultz told the Board that he informed the President the next day. He said that the President was "stricken" and could not believe anything like this had been discussed. Of particular concern was the point that the United States had consistently given strong support to Kuwait in resisting terrorist demands for the release of the Da'Wa prisoners.

At the October 26-28 meeting, the Iranian participants said the story of the McFarlane mission to Tehran had been published in a small Hezbollah newspaper in Baalbek, Lebanon. The article was based on a series of leaflets distributed in Tehran on 15 or 16 October.

Mr. Regan recalls the President authorizing the shipment of 500 TOWS on October 29, 1986.

Because of a delay in the transfer of funds the TOWS actually delivered to Iran on October 29, 1986, were Israeli TOWS. The 500 U.S. TOWS were provided to Israel as replacements on November 7.

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On November 2, hostage David Jacobsen was released. The next day, a pro-Syrian Beirut magazine published the story of the McFarlane mission. On November 4, Majlis Speaker Rafsanjani publicly announced the mission.

The President, VADM Poindexter, and Lt. Col. North held hopes that more hostages would be released. Notes taken by the NSC Executive Secretary indicate that on November 7, 1986, the President decided not to respond to questions on this subject for fear of jeopardizing the remaining hostages. No further hostages were released.

Mr. Ghorbanifar told the Board that the switch to the second channel was a major error. He claimed that he had involved all three major lines or factions within the government of Iran in the initiative, and that the second channel involved only the Rafsanjani faction thus stimulating friction among the factions and leading to the leak of the story to embarrass Rafsanjani. In addition, the price offered to this faction was lower (\$800 per TOW) than the price charged for the earlier TOW deliveries (\$1000 per TOW).

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The President made the point to the Board that arms were not

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given to Iran but sold, and that the purpose was to improve the stature within Iran of particular elements seeking ties to the Iranian military. The President distinguished between selling arms to someone believed to be able to exert influence with respect to the hostages and dealing directly with kidnappers. The President told the Board that only the latter would "make it pay" to take hostages.

The President told the Board that he had not been advised at any time during this period how the plan would be implemented. He said he thought that Israeli government officials would be involved. He assumed that the U.S. side would be on its guard against people such as Mr. McFarlane had met in London in early December. He indicated that Director Casey had not suggested to him at any time that the CIA assume operational responsibility for the initiative, nor was he advised of the downside risks if the NSC staff ran the operation. He recalls understanding at the time that he had a right to defer notice to Congress, and being concerned that any leaks would result in the death of those with whom the United States sought to deal in Iran.

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Notes made by the NSC Executive Secretary indicate that at the daily national security briefing on May 12, 1986, VADM Poindexter

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discussed with the President the hostages and Mr. McFarlane's forthcoming trip. The notes indicate that the President directed that the press not be told about the trip. Notes made by the Executive Secretary on May 15, 1986, indicate that the President authorized Mr. McFarlane's secret mission to Iran and the Terms of Reference for that trip. Those notes indicate that the trip was discussed again with the President on May 21.

On May 17, Lt. Col. North "strongly urged" that VADM Poindexter include Secretary Shultz and Secretary Weinberger along with Director Casey in a "quiet" meeting with the President and Mr. McFarlane to review the proposed trip. VADM Poindexter responded, "I don't want a meeting with RR, Shultz and Weinberger."

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The President told the Board that he did inscribe the Bible because VADM Poindexter told him this was a favorite passage with one of the people with whom the U.S. was dealing in Iran. The President said he made the inscription to show the recipient that he was "getting through."

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